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THEATERS FOR RENT OR FOR SALE

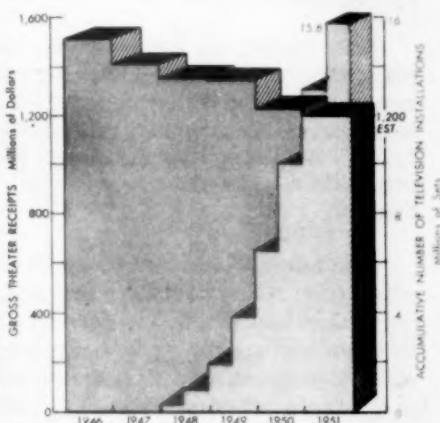
MANY indoor motion picture theaters across the country are in for some very bad times. Already hundreds have closed their doors, and many more have their backs to the wall. Those of us interested in real estate values are watching an entertainment revolution turn these houses into problem properties, as conversion to other uses may or may not be profitable.

Competition from television and new drive-in theaters has knocked out large numbers of indoor houses in certain areas. Naturally, the first ones to go have been marginal theaters which have been holding on by virtue of the very prosperous years immediately following the war.

Now that the long-awaited lifting of the television station freeze by the FCC has been announced, this entertainment competition will spread into many new urban areas and will be intensified in those metropolitan areas with only one station. "Free" entertainment on television is likely to improve, and the popular and convenient drive-in theaters are still on the upswing. It appears that the situation for the indoor motion picture theaters will be worse instead of better.

What has happened since 1946? To throw a little light on the whole subject we have tried to ascertain just what the situation is today. There were 17,689 regular indoor theaters according to the 1948 census. The film industry reports that roughly one-half of these houses (owned by 647 circuits) have almost two-thirds of the total seating capacity and do about 90% of the business. Only slightly more than 10,000 theaters are located in towns or cities with populations of over 2,500. Four States, New York, California, Pennsylvania and Illinois, have one-fourth of the theaters and 39% of the dollar volume. It is estimated that the total property value of the theaters in this country is \$2,740,000,000.

GROSS THEATER RECEIPTS (INCLUDING DRIVE-INS)
AND TELEVISION SET INSTALLATIONS



Theater attendance has been dropping from the very prosperous years of 1946 and 1947. The chart on page 163 shows the trend of gross theater receipts as compared with the phenomenal growth in the number of television set installations (now nearing 17 million). Local estimates of the drop in attendance range from 20% to 40%, with the larger cities having a larger drop than the smaller communities.

On the opposite page is a table which shows the results of a survey in 83 cities made during the past month. License collectors in these cities have reported the total number of licenses which were issued during the period since 1948. Cities most affected, as indicated by the column "Number of theaters closed or converted since 1948," have been Boston, Chicago, Cincinnati, Cleveland, Columbus, Detroit, and St. Louis. Other large cities known to have had many closings, but not reporting, are Los Angeles, Philadelphia, and New York. Over 90% of the closings have been in metropolitan areas with television stations. Of the remainder, most of the closings are in cities which are in television-receiving areas. Only six closings were reported as being the result of fire or condemnation.

There are three important factors which should have a relationship to theater closings during the next few years. First is the existing number of indoor theaters per unit of population. Those cities having more than five or six houses for each 50,000 persons, as shown on the table, will be apt to have a large percentage of closings. Secondly, the number of television stations which will be received in these cities will influence theater attendance; and, thirdly, the drive-in theaters very likely will draw even more moviegoers from the indoor houses. More and more theaters, if not closed, may operate only three or four nights a week. Better pictures, extensive advertising and incentives such as "children under 12 admitted free" have brought some relief to distressed theaters. The "revolution" is far from being over, however, as indicated by statistics and predictions for drive-ins and televisions.

With convenient accessibility, larger capacity and added attractions such as playgrounds, the drive-in theaters have already made a deep inroad on theater attendance. Today they account for perhaps as much as 20% of the total. From less than 100 in number prior to World War II, the drive-ins now number some 3,500. While their competition is heaviest in sections of the country with climates favorable to year-round operation, they are increasing in number all over the country.

The television industry, on the other hand, has had some difficulties of its own. Only 108 stations are operating in 63 trade areas because of the 3½-year-old freeze imposed by the Federal Communications Commission. Entertainment on television appears to be irrevocably tied to the advertising world, and programs must have sponsors. Stations cannot be linked in national networks as is the case in the radio industry. The FCC has limited a single network ownership to five stations. Television eats up available films and talent at an unbelievable rate. In

INDOOR MOTION PICTURE THEATERS IN 83 CITIES

City	1950 Population	Number of Indoor Theater Licenses Issued					Number of Theaters in 1950 Per 50,000 Population	Approximate Number of Theaters Closed or Converted Since 1948
		1948	1949	1950	1951	1952		
Akron, Ohio	274,605	32	33	33	30	26	6.0	6
Allentown, Pa.	196,754	-	-	-	-	13	7.0	2
Ashland, Ky.	31,131	-	-	4	4	4	6.5	0
Baltimore, Md.	949,708	114	119	114	108	-	6.0	NR (11+)
Beaumont, Tex.	94,014	6	6	6	7	7	3.2	0
Bethlehem, Pa.	66,240	6	6	6	6	6	4.5	5
Birmingham, Ala.	326,027	-	-	32	32	-	4.9	NR
Boston, Mass.	901,444	84	82	83	78	69	5.2	15
Bridgeport, Conn.	156,709	20	21	20	20	20	6.2	1
Buffalo, N. Y.	560,132	62	62	61	67	66	5.2	4
Canton, Ohio	116,912	9	9	9	9	9	3.8	0
Charleston, W. Va.	73,501	-	-	13	13	13	6.8	0
Charlotte, N. C.	134,042	16	16	16	16	16	6.0	0
Chattanooga, Tenn.	131,041	-	-	-	-	18	7.2	1
Chicago, Ill.	3,620,962	296	296	288	252	219	4.0	79
Cincinnati, Ohio	503,998	76	82	73	68	-	7.2	16
Cleveland, Ohio*	914,806	165	145	149	143	-	-	20-25
Columbus, Ohio	375,901	52	50	52	46	42	6.9	NR (10)
Dallas, Tex.	434,462	50	54	58	64	64	6.7	NR
Davenport, Iowa	74,549	8	8	8	8	8	3.4	0
Dayton, Ohio	243,672	30	30	30	29	-	6.2	1
Denver, Colo.	415,786	30	-	-	-	37	4.5	3
Des Moines, Iowa	177,985	21	21	21	21	21	5.9	1
Detroit, Mich.	1,849,566	154	175	162	125	-	4.4	NR (50+)
Duluth, Minn.	104,511	9	12	12	10	10	5.7	2
El Paso, Tex.	130,485	10	10	10	9	9	3.8	1
Flint, Mich.	163,143	18	18	18	18	18	5.5	1
Fort Worth, Tex.	278,778	22	22	22	25	22	3.9	1
Fresno, Calif.	91,669	11	13	13	13	13	7.1	2
Grand Rapids, Mich.	176,515	23	23	23	21	-	6.2	2
Greensboro, N. C.	74,389	6	-	-	-	9	6.0	1
Greenville, S. C.	56,181	7	9	8	9	8	6.9	1
Hartford, Conn.	177,397	17	17	17	17	17	4.6	0
Hazleton, Pa.	35,491	-	-	-	-	5	7.0	0
High Point, N. C.	38,973	6	6	6	6	6	7.5	0
Holyoke, Mass.	54,661	6	6	6	5	5	5.5	1
Houston, Tex.	596,163	43	43	43	50	50	3.6	0
Huntington, W. Va.	66,353	14	14	14	13	12	6.1	2
Johnstown, Pa.	63,232	13	13	13	13	12	10.3	1
Knoxville, Tenn.	124,769	20	18	18	16	16	6.4	4
Lancaster, Pa.	53,774	6	6	7	7	7	5.5	0
Little Rock, Ark.	162,213	11	13	13	13	13	6.4	0
Miami, Fla.	249,276	31	32	32	31	30	6.4	2
Minneapolis, Minn.	637,362	-	-	74	77	78	5.9	2
Mobile, Ala.	521,718	67	67	62	56	-	6.0	NR (9+)
Mobile, Ill.	120,009	15	15	15	15	15	5.6	2
Moline, Ill.	37,397	5	5	5	5	5	6.7	0
Nashville, Tenn.	174,307	-	-	-	-	16	4.6	NR
Norfolk, Va.	213,513	28	30	30	31	-	7.0	0
Norwalk, Conn.	49,460	4	4	4	4	4	4.0	2
Oakland, Calif.	384,575	34	34	34	34	34	4.4	0
Oklahoma City, Okla.	243,504	35	33	42	42	42	6.6	2
Omaha, Nebr.	251,117	26	26	26	26	25	5.2	2
Peoria, Ill.	111,856	-	-	-	-	10	4.9	3
Phoenix, Ariz.	106,818	12	12	12	12	10	5.6	2
Portland, Oreg.	273,628	53	51	52	51	54	7.0	1
Portsmouth, Va.	80,039	13	13	11	11	10	6.6	2
Providence, R. I.	244,674	17	17	17	17	14	3.4	3
Rock Island, Ill.	49,719	5	-	-	5	-	5.2	0
St. Louis, Mo.	656,756	92	92	85	77	70	5.0	23
St. Paul, Minn.	311,349	34	34	34	34	31	6.5	3
St. Petersburg, Fla.	96,736	11	11	11	12	12	5.7	0
Salt Lake City, Utah	182,121	17	18	20	20	20	5.6	0
San Francisco, Calif.	775,997	80	80	80	80	80	6.6	0
San Jose, Calif.	95,290	10	11	12	13	13	6.0	0
Schenectady, N. Y.	91,785	12	12	11	9	9	6.0	1
Scranon, Pa.	125,536	16	16	15	14	14	6.0	2
Shreveport, La.	127,266	15	15	15	14	14	5.6	1
South Bend, Ind.	115,911	11	11	11	11	11	4.4	0
Springfield, Mass.	162,399	13	13	13	14	12	4.4	2
Stockton, Calif.	70,953	12	13	13	12	11	9.2	1
Superior, Wis.	35,325	6	6	6	6	6	6.5	0
Syracuse, N. Y.	220,583	25	25	25	23	23	5.7	2
Tacoma, Wash.	143,673	16	17	18	18	17	6.9	1
Trenton, N. J.	128,009	18	18	18	18	16	7.1	2
Utica, N. Y.	101,531	10	10	10	10	10	4.9	0
Washington, D. C.	602,178	68	71	71	69	69	4.4	5
Wheeling, W. Va.	58,991	15	14	14	14	14	11.9	1
Wichita, Kans.	168,279	18	19	19	19	20	5.7	0
Wilkes-Barre, Pa.	76,626	10	10	10	10	10	6.5	0
Worcester, Mass.	203,486	11	11	11	11	11	2.7	0
York, Pa.	59,953	7	7	7	7	7	5.8	0
Youngstown, Ohio	168,330	16	16	15	16	16	4.5	1

NR Not reporting number of closings.

* All types of indoor amusement.

some of our large metropolitan areas it has been estimated that as many as three-fourths of the families are watching television in their homes.

With the lifting of the freeze just announced, it has been estimated that the television industry will have about 20 new stations by the end of this year. Altogether about 2,000 applications are expected, but it will take many months of hearings and appeals before the allocation of stations is completed. Television may continue to surprise us by sweeping these expectations into a corner. One prediction is that there can be some 3,000 stations and 50,000,000 sets within a few years. At any rate, the "baby" industry is here to stay.

In spite of storm warnings and doors beginning to close, 1950 was the largest year on record for the construction of new theaters (including drive-ins). This represented a pent-up demand for theaters, especially in areas of new urban development. The year 1951 showed a very sharp drop, however, as shown by figures published in a recent film industry trade journal.

New Theater Construction

	1950	1951
Indoor theaters	452	158
Drive-ins	<u>1,154</u>	<u>403</u>
Total	1,606	561

Texas had far more theaters constructed last year than any other State. States with the largest number of new theaters were as follows:

<u>Indoor Theaters</u>		<u>Drive-Ins</u>	
Texas	12	Texas	35
California	6	Florida	20
Wisconsin	6	Tennessee	12
Tennessee	6	North Carolina	12
Ohio	5	Georgia	11
New York	5	West Virginia	10
Florida	4	Indiana	10
Iowa	4	Illinois	9
Massachusetts	4	Pennsylvania	9

Theater construction will fall off sharply again this year because of government controls and lack of confidence. We have talked to several companies that are lenders in the theater field. The policy for some time has been strictly hands-off until the future of the presently irregular box office receipts is more clearly seen. Loans on existing theaters, especially marginal houses and those built during the high level of construction costs, are being watched very closely. More theaters will probably be forced to close their doors this year, some because of natural old age or shifting neighborhoods; but the television-drive-in

combination will account for the largest number of casualties.

Watching current developments regarding the following questions will help us to see the future of theater houses more clearly.

1. Will Hollywood win out and make television another outlet for its products, or will TV be the victor and have Hollywood devoting its energies to living room entertainment? Since the two fields complement each other it seems natural for a merger of interests to develop.

2. Will the big theater circuits have exclusive television channels for their houses? Already this has been tried and several hundred theaters have been or are being equipped for exclusive television showings of special events.

3. What about color television on the one hand and third dimensional movies on the other?

4. What will be the net effect of the recent court ruling which divorces the major film producers from their chains of theaters?

5. Will the trend toward the production of television shows on film continue?

6. What about television and politics, education, advertising, morals, health, radio and sports?

The film production industry in Hollywood has very much at stake in television's future. Similarly, the major theater circuits (now forced into separation from the production companies) will be very closely linked to future plans. Hollywood has the facilities, technicians and talent to go with the convenient distribution facilities of the industry. If Hollywood, television and the big circuits make an arrangement to end their feuding and combine forces in the entertainment world, there is a good chance that several thousand more theater houses will be closing virtually overnight.

What are we going to do with these buildings already closed and those which may yet enter the real estate market in large numbers?

At the present time most of the closed theaters are standing idle. We have found conversion to other uses in various cities which may point the way for the use of some of these houses - bowling alleys, super markets, storage warehouses, light manufacturing, legitimate theaters, churches and retail stores. Some of these conversions have been costly and the locations have been very good to warrant them. We know of one \$350,000 conversion of a large midwestern theater to a variety store with a second floor constructed in place of the balcony for offices. A 5,000-square-foot neighborhood theater on a strip commercial street is being converted at a cost of \$20,000 to a super market. An additional \$35,000 is to be spent on fixtures. Another theater has been used as an auction

house - it will be vacant again soon. A growing number of theaters are being demolished, but most of these structures have outlived their usefulness for any purpose.

It is natural that the theater owners are reluctant to express pessimism about the future. They tell us that there is more seating capacity today in almost every city than there has ever been. Of course, they include drive-in theaters in these figures and they neglect to comment on the empty seats. There is no question that many of the theaters closed so far have been marginal theaters operating past their time, and to some extent there has been an accumulation of normal failures concentrated in a few years. Many operators maintain that the only slumps in attendance they have experienced are the result of poor feature attractions. It is true today that good feature productions are recording high attendance figures.

Theaters which have first- and second-run pictures are in a much more favorable position than most neighborhood and third- and fourth-run theaters. One reason is that television has trespassed on the market for "B" grade pictures. One neighborhood theater in St. Louis has had this experience. It is in good condition and in an average-income district that has had a favorable increase in population in the last decade. For many years the operator of this theater paid \$600 per month rent. Two years ago this rent was reduced to \$450 and six months ago the rent was slashed to \$250 with a 2-year lease. The business failed and the property is for lease or for sale.

An examination of 20 houses in St. Louis which have closed since 1948 revealed that only 3 have been converted to other uses, 9 are for sale or for rent, and 8 are closed but not advertised for sale or rent. The conversions were: a contractor's office and storage, a legitimate theater, and an auction house. Of the remaining 17 properties, 3 have a possibility of industrial use, 8 are located in fair retail areas, and 6 have very poor locations for either retail or industrial use. Two of the closings could have been the result of changing neighborhoods and another two or three are obsolete buildings. Zoning restrictions make conversion to any industrial use impossible for 17 of the 20 sites.

Local governments should be interested in the problem of these vacant special-use buildings not only because of lost revenue from licenses and admission taxes, but because their future uses will have considerable influence on the surrounding commercial and residential property. Perhaps some houses could be used for community uses, such as gymnasiums, little theaters, or meeting halls. City assessors should review their assessments on theater properties as their values drop.

Determining the value of theater properties today is an undertaking which calls for a careful analysis of many contributing influences. For the most part, theaters are special-use buildings and their values as such depend to a large extent upon the successful operation of motion picture businesses. The future for the industry's exhibitors is closely related to the old and new forms of competition

in the entertainment field. Factors such as neighborhood trends, disposable family income, quality and quantity of film production, film distribution costs and others also have considerable bearing upon theater values.

Whether a building is vacant or not, attention should be given to the possibility of conversion to other uses. Here the location of neighborhood theaters may detract from the conversion potentials, as many are located on the fringes of shopping centers, some distance from the 100% location.

Because of the risk factor involved today, a relatively high capitalization rate may be necessary in some instances when using the income method of appraisal. Anticipated returns to the property, based on theater use or a converted use, will be increasingly difficult to predict, and recent past earnings will warrant careful study. The summation approach to values of distressed theater properties will be meaningless unless a large depreciation factor is used for obsolescence due to both economic and functional reasons.

There is little doubt that many theaters will continue to be valuable investments and will even experience appreciation if competing theaters are closed. However, values should be approached cautiously, as there is considerable justification for expecting continued troubles ahead for many of our motion picture theaters.

ADDITIONAL STATISTICS AND COMMENTS FROM VARIOUS CITIES

Boston, Mass. - "This (15 closings) represents a loss of \$9,300 in license fees to the City of Boston."

Chicago, Ill. - "Seating capacity January 1, 1948 - 324,690; seating capacity January 1, 1952 - 269,598."

Cleveland, Ohio - "Many of our theaters are operating only on a part-time basis. Tax revenue has declined 33-1/3% since 1948."

Denver, Colo. - "Since 1948 we have had 3 theaters closed by the fire and building departments as unsafe. We don't have television so the theaters, I would say, do a good business."

Des Moines, Iowa - "Theaters here are just about holding their own."

Grand Rapids, Mich. - "Although only 2 theaters have closed operations, at least a half dozen of them have curtailed operations by closing 1 or 2 nights a week."

Greenville, S. C. - "All theaters in the city seem to be well patronized."

New Orleans, La. - "... annual proceeds from the city amusement tax of

2% on the cost price of admission to theaters:

*1948 - \$187,916.61
1949 - 182,690.22
1950 - 168,849.02
1951 - 191,445.62"

San Diego, Calif. - "We know of no theaters which have been closed in recent years. Movie theater attendance:

*1948 - 10,005,143
1949 - 9,619,048
1950 - 8,940,181
1951 - 9,830,886"

Schenectady, N. Y. - "Of all the 9 theaters operating, 4 are opened only 3 to 4 nights per week."

Seattle, Wash. - "Except for an occasional new movie, there has been very little change in the theater picture in Seattle since 1948."